



CYCLED AGENCY TRANSFER PAYMENT REVIEW

FISCAL YEAR 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Transfer payments are transfers of state or federal funding from Commonwealth agencies to other state agencies, local governments, nonprofit entities, individuals, or other beneficiaries for the purpose of enhancing services in the Commonwealth of Virginia. Commonwealth agencies are responsible for disbursing funds in compliance with both state and federal regulations, as applicable.

Our audit of transfer payment operations for the fiscal year ended June 30, 2018, at ten agencies had the following objectives:

- Determine whether the agency has adequate internal controls over transfer payments to ensure compliance with applicable statewide policies and procedures.
- If the agency passes through federal funds to subrecipients, ensure the agency has complied with federal regulations governing the funds that are passed through.
- If applicable, determine whether the agency has adequately addressed any deficiencies regarding transfer payments that were identified during prior audits.

Our audit of the selected agencies found:

- agencies were processing transfer payments effectively and accurately, in all material respects; and,
- a matter involving internal control and compliance at the Department of Elections necessary to bring to management's attention.

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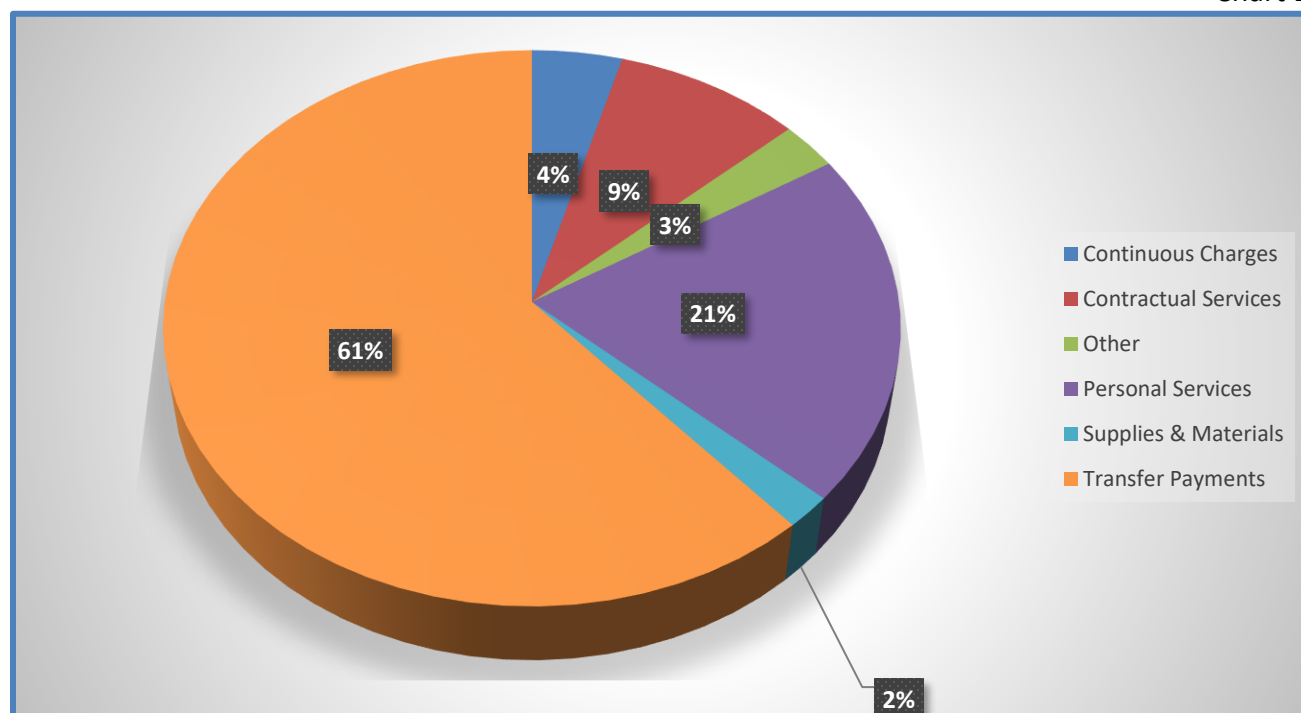
INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial Branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. The APA refers to agencies audited on a periodic basis as cycled agencies. Historically, the APA has audited cycled agencies at least once every three years. Beginning with fiscal year 2016 audits, the APA developed a risk-based approach for auditing cycled agencies. This modified audit approach allows the APA flexibility to focus on different areas of significant agency operations every year at any one or several of the cycled agencies based on an assessment of risk factors.

For fiscal year 2018, the APA chose the transfer payments cycle as the area of audit focus. Specifically, this includes analysis of the controls surrounding transfer payments, the funding sources and recipients of transfer payments, the regulations governing transfer payments, and aspects of the contractual agreements between state agencies and the recipients of transfer payments. Transfer payments represent a significant portion of expenses for the Commonwealth; and therefore, are a critical business cycle for state agencies. As shown in Chart 1, transfer payments made up 61 percent of all expenses for the cycled agency population, totaling \$2.3 billion for fiscal year 2018.

**Expenses by Type for Cycled Agencies
Fiscal Year 2018**

Chart 1



Source: Commonwealth's accounting and financial reporting system

Transfer payments are transfers of state or federal funding from Commonwealth agencies to other state agencies, local governments, nonprofit entities, individuals, or other beneficiaries for the purpose of enhancing services in the Commonwealth of Virginia. The funds are allocated to the agency for specified purposes and must be disbursed to the other entities accordingly.

Federal funds that are transferred from a state agency to another entity are considered pass-through funds. The federal government provides the funds to an agency to disburse according to federally outlined purposes. For example, the State Council of Higher Education for Virginia (State Council) receives federal funding for the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) Program. This program's purpose is to increase student college enrollment and success and to transform the lives of low-income families and their communities. The State Council passes through these funds to Virginia local school divisions, as subrecipients, who are responsible for making disbursements that support the purpose of the program. Even though the State Council has passed the funds through to a subrecipient, it is still responsible for administering the grants and ensuring that the expenses are allowable and in accordance with the purposes of the federal program.

State funds are provided to agencies based on the Appropriation Act, for purposes outlined within the Appropriation Act or the Code of Virginia. The funds must be disbursed accordingly, based on the respective state guidelines. For example, the Department of Elections (Elections) is provided funding to support local boards of election and general registrars. The Appropriation Act outlines the method in which these funds should be allocated to localities, and Elections disburses the funds based on legislative intent. Generally, state funds are provided to agencies for distribution to localities or other nonstate entities for the purpose of promoting the Commonwealth's goals and objectives.

While some agencies receive only state funds and some receive both state and federal funds, each agency must abide by certain laws and regulations concerning transfer payments. This review includes an analysis of all funding received by certain agencies that is disbursed using transfer payments, and considers compliance with the appropriate regulations identified.

TRANSFER PAYMENTS AUDIT OVERVIEW

Objectives, Scope, and Methodology

The overall objective for this audit is to gain an understanding of transfer payments operations within the cycled agency population and to identify areas of concern for improvement. This includes analysis of the internal controls surrounding transfer payments, the funding sources and recipients of transfer payments, the regulations governing transfer payments, and the contractual agreements between state agencies and the recipients of transfer payments. Our audit covers activity occurring in the fiscal year ended June 30, 2018. The specific objectives of this review are to:

- Determine whether the agency has adequate internal controls over transfer payments to ensure compliance with applicable statewide policies and procedures.
- If the agency passes through federal funds to subrecipients, ensure the agency has complied with federal regulations governing the funds that are passed through.
- If applicable, determine whether the agency has adequately addressed any deficiencies regarding transfer payments that were identified during prior audits.

We used the Code of Virginia and the Appropriation Act to determine the regulations governing the use of state funds for the agencies selected, and we used the U.S. Office of Management and Budget publications and federal grant program information to determine regulations governing the use of Federal funds for the agencies selected. We performed a risk-based analysis over the pool of cycled agencies and then performed detailed test work at ten agencies that were selected for further review.

Agencies Selected for Detailed Review

A total of 52 agencies were included in our risk-based analysis to determine which agencies would be included in our sample for the transfer payments review. We created a matrix of the agencies and documented the factors we used to determine the agencies selected. We also considered the size of the agency so that both smaller and larger cycled agencies would be included. Factors we considered included:

- Whether the agencies received an APA Internal Control Questionnaire (ICQ) in the prior fiscal year and whether the ICQ identified transfer payment issues;
- Amount of transfer payment expenses in fiscal year 2018, primarily in relation to the agency's total expenses for fiscal year 2018;
- Whether the agency was included for review as part of the APA's 2018 Single Audit of federal funds; and
- Prior knowledge of agencies with qualitatively significant transfer payments.

We analyzed the matrix of information and determined that we would perform test work at ten agencies. Table 1 below lists the agencies and provides the agencies' abbreviated names used in this report.

Agencies Selected for Detailed Test Work

Table 1

Agency Name	Abbreviated Name
Compensation Board	Compensation Board
Department of Aviation	Aviation
Department of Criminal Justice Services	Criminal Justice Services
Department of Elections	Elections
Department of Environmental Quality	Environmental Quality
Department of Rail and Public Transportation	Rail and Public Transportation
State Council of Higher Education for Virginia	State Council
Tobacco Region Revitalization Commission	Tobacco Commission
Virginia Commission for the Arts	Commission for the Arts
Virginia Racing Commission	Racing Commission

The Commission for the Arts was included in the group of agencies selected for further review as part of this audit, and was also included as part of the ICQ review performed by a separate audit team.

During the course of the concurrent reviews, it was determined that a separate audit report detailing the results of both reviews would be developed and issued by both audit teams. The jointly-prepared audit report will be released by the APA at a later date, and the remaining information in this audit report does not include any further information related to the Commission for the Arts.

AUDIT FINDING AND RECOMMENDATION

Improve Process for Payments for General Registrars and Electoral Boards Applicable to: Elections

Elections' documentation over the payment process was not adequate to allow us to fully verify the calculations for payments made to localities. The General Assembly has approved funding guidelines for Elections, through the Appropriation Act, for the distribution of payments to facilitate support for the administration of electoral activities performed by localities. The Appropriation Act establishes the amounts based primarily on the population of the locality, and Elections processes transfer payments to the localities to fund the positions of local registrars and electoral boards. The Appropriation Act also allows general registrars in localities in which the population falls below a funded threshold to retain their previous salary until their separation.

The documentation provided did not adequately support certain funding allocations and lacked critical information regarding how certain final payment amounts were determined. Based on the information provided by Elections, it was not possible to fully ensure that amounts paid for general registrars and electoral boards were appropriate. Inadequate documentation of the disbursement process for all impacted localities increases the risk of noncompliance with the Appropriation Act.

Elections has experienced turnover in its financial operations section in recent years, and does not maintain fully documented policies and procedures over the funding allocations. The lack of fully documented procedures, based on ensuring complete information is maintained and supports changes in payments for general registrars and electoral boards, increases the risk of the allocation calculation being done incorrectly.

During our previous review of this process in the [Department of Elections Report on Audit for the Period July 1, 2012, through June 30, 2015](#), there were significant issues with the methods used by Elections to perform these processes. As part of this review, we noted that Elections has made significant progress to address the previous deficiencies, but additional steps are necessary to ensure the amounts provided to localities are consistent with the legislative intent of the Appropriation Act. Elections should ensure this process is documented appropriately and that all funding decisions reflected in the final payments to localities are adequately supported to reduce the risk of incorrect amounts being paid to localities.

CONCLUSION

The conclusions this audit draws related to fiscal year 2018 transfer payment operations, only apply to the nine agencies selected for detailed test work, and cannot be extrapolated to agencies statewide or to the entire pool of 52 cycled agencies.

Except for the specific instance outlined in the "Audit Finding and Recommendation" section, the nine agencies audited are maintaining adequate internal controls and ensuring compliance with applicable statewide and agency-specific transfer payment policies and procedures and federal regulations. For fiscal year 2018, we found that the nine audited agencies were processing transfer payments effectively and accurately, in all material respects. Corrective action was taken on previously issued findings related to transfer payments.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 30, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the transfer payment operations of nine Commonwealth agencies for fiscal year 2018, and are pleased to submit our report entitled **Cycled Agency Transfer Payment Review**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population for each of the nine individual cycled agencies as detailed in the report.

Exit Conference and Report Distribution

We provided an initial copy of the report to management of Elections on October 8, 2019, and the additional eight agencies cited in this report on October 22, 2019. We discussed this report with management of Elections on October 24, 2019. Elections' management's response is included in the section titled "Audit Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
DEPUTY AUDITOR OF PUBLIC ACCOUNTS

KJS/clj



COMMONWEALTH of VIRGINIA
DEPARTMENT OF ELECTIONS

Christopher E. "Chris" Piper
Commissioner

Jessica N. Bowman
Deputy Commissioner

October 21, 2019

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23219

Dear Ms. Mavredes:

The following is in response to your Transfer Payments Audit of ten agencies in which the Virginia Department of Elections (ELECT) was included for Fiscal Year 2018. We are pleased that the Auditor of Public Accounts (APA) acknowledged the progress made from the previous review to address the previously noted deficiencies. ELECT appreciates this most recent review. We will ensure that your recommendations are addressed to strengthen the reimbursement process with additional documentation for the disbursement of funds in accordance with the intent of the appropriation act.

In closing, thank you for the opportunity to respond to the results of your review. Please feel free to contact us if you have any additional questions or concerns.

Sincerely

A handwritten signature in black ink, appearing to read "Kevin A. Hill", with a long, sweeping horizontal line extending to the right.

Kevin A. Hill
Business Manager

cc: Chris Piper, Commissioner
Jessica Bowman, Deputy Commissioner

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Toll-Free: (800) 552-9745 TTY: (800) 260-3466 elections.virginia.gov

CYCLED AGENCY TRANSFER PAYMENT REVIEW

as of June 30, 2018

Compensation Board

Tyrone Nelson, Chairman of the Board
Robyn de Socio, Executive Secretary
Kim Jezek, Fiscal Officer

Department of Aviation

Mark Flynn, Director
Roger Bowling, Chief Financial Officer

Department of Criminal Justice Services

Shannon Dion, Director
Monica Darden, Chief Financial Officer

Department of Elections

Chris Piper, Director
Kevin Hill, Business Finance Manager

Department of Environmental Quality

David Paylor, Director
Valerie Thomson, Director of Administration
Chris Moore, Chief Financial Officer

Department of Rail and Public Transportation

Jennifer Mitchell, Director
Judith Gifford, Director of Accounting and Administration

State Council of Higher Education for Virginia

Peter Blake, Director
Ellie Boyd, Budget and Finance Director

Tobacco Region Revitalization Commission

Evan Feinman, Executive Director
Stephanie Kim, Director of Finance

Virginia Racing Commission

David Lermond, Executive Secretary
Kimberly Mackey, Business Manager